# ECONOMIC THEORY—DISCUSSION

WALTER W. STEWART.—I find myself in sympathy with the general point of view expressed by Professor Clark and Professor Hamilton, and since a discussion of methodology is chiefly an occasion for confessing the faith rather than for the purpose of making converts, I shall give very briefly my reasons for agreeing with them.

First of all, the approach to economic problems which they have indicated comes recommended by the most competent thought in the related sciences of psychology and sociology. The economist must avail himself of the conclusions of the workers in these other fields and his methods must be able to meet their criticisms. Value theorists have tried several different devices for meeting the criticism brought against their antiquated psychology. They have pointed to the confusion of counsel among the psychologists themselves; they have claimed that psychology did not matter for economics anyway; and they have changed the nomenclature of their hedonistic concepts. What is called for, however, is a thoroughgoing revision which will reformulate the problems and place the emphasis upon those neglected institutions which exercise a controlling influence over our economic life. The economist cannot do his work adequately by the use of a hypothetical human nature.

I agree, also, in their statement of the general problem of economic theory. The advantage of a clear recognition of the general problem by the economists working in the special fields is that as their work develops their results will come to constitute a coherent body of theory, organized around the central problem of control. In the work now being done in banking and in taxation, in problems of labor and of valuation, there is implied a body of principles which will make good its claim to be economic theory. The detailed analysis of the market, already made by value theorists, will find its place in such a body of theory, but instead of being studied in logical isolation the market will play its rôle along with the other agencies of control.

Perhaps this attitude towards the market as simply one of the institutions requiring analysis is the determining characteristic of institutional theory. Value theory, whether avowedly or not, has always been a search for the controlling causes which underlie the market process. The theorist has never been content to let the analysis rest on the merely pecuniary level, which he has regarded as superficial and circular. Institutional theory does not differ in this respect, but instead of a normal value or a social value to which market prices

tend to conform, institutional theory regards as the fundamental data for analysis such underlying institutions as ownership, inheritance, the standards of consumption, and the development of technology. These phenomena have not been overlooked by the value theorist, but they have been put into a separate compartment called "dynamics"; they have been relegated to a second volume; and have finally been left unincorporated. These rejected facts are regarded as fundamental by an economic theory of the institutional type.

In one respect I should like to supplement the suggestions made in the two papers read. In view of the scale and complexity of our present-day industrial society, I believe an adequate analysis of many of our problems can be made only by a union of the statistical method and the institutional approach. This means the use, in so far as the human material of the social sciences permits, of the method of the more exact sciences. If institutional theory is to save itself from unverifiable hypotheses and vague conclusions, it must be prepared to measure the processes of change wherever possible and to show quantitatively the correlations among them. The institutional analysis, in turn, will define more clearly the ends of economic endeavor and keep the statistical method from getting lost in meaningless measurements. "He who knoweth not what he seeketh understandeth not that which he findeth." The quantitative study of economic institutions I believe to be the most fruitful direction for the development of economic theory.

Lewis H. Haney.—I desire to say a few words of criticism of the papers just presented by Professor Ogburn and Professor Hamilton. Professor Ogburn's statement that economics deals with the individual as though he were entirely actuated by selfish motives is not correct, in my judgment. This assertion assumes that there is no alternative to altruism except selfishness. It is true that economics commonly assumes that the individual does not act in an altruistic way; but it does not assume that all individuals are selfish. For example, when the housewife and mother goes to the department store for the purpose of purchasing her Christmas gifts, she is acting as an "economic man," and will no doubt higgle shrewdly with the opposing clerk. Nevertheless she does not have her own interests primarily in mind, but those of the child and the husband. In order to make a transaction economic, it is only necessary that the parties thereto should not be primarily interested each in the welfare of the other.

Mr. Ogburn's paper is also open to the criticism of being based on a

materialistic philosophy. He regards the individual as a mechanical or behavioristic thing; something external comes along and pushes the button and out drops the reaction. I think it is safe to say that the philosophy of materialism has not been finally established; and until it is, any hypotheses built upon it must remain hypothetical. Even John Locke, while at bottom a materialist, had to admit "reflection" as an independent factor in the human make-up. I for one am not prepared to admit that there is nothing in the ego but a passive set of reactional capacities.

With regard to Professor Hamilton's paper, I would call attention to the fact that it seems to stand for about the same things that the historical school long ago stood for; and I believe that the so-called "institutional economics" will be no more fruitful now than it was fifty years ago. To be sure the emphasis of the institution was needed then, and it is doubtless well to emphasize it now. I believe, however, that Professor Hamilton will not be able to develop any laws or build a science, but that his proposal will merely lead to an ever changing description of an ever changing environment.

The paper seems to overlook the difference between economics and other social sciences. No one will deny that the various social sciences are closely inter-related; but many will hold that it is a wise division of labor that the economist should confine his attention to economic motives and economic values. There are different levels of valuation, so to speak—ethical, political, religious, aesthetic, and economic. There is ample room for a distinct and separate science of economics to deal with this last class of values.

I would appraise the episode created by this group of papers as being one of a long series of reactions against the tendency on the part of certain economists to reason too abstractly. This discussion may be regarded as a sort of "the morning after" the Austrian School.

B. M. Anderson, Jr.—Chiefly because my expectations were very high, I must confess to some disappointment in the degree of definiteness in what has been presented this afternoon by Professors Hamilton, Clark, and Stewart. I have looked forward for over a year to this session hoping that they would make clear precisely what they propose in the matter of the reorganization of economic theory. That they have new and significant ideas I am perfectly sure, because at those points where I understand them I recognize new and significant ideas, but I am still far from clear as to the full drift. I should like to ask them some questions. Are they proposing a new and exclusive

method of approaching economic theory? In proposing a new method, do they propose also to scrap the old methods? In particular, do they propose to abandon the methods of the static analysis,—the main body of price theory which has been elaborated by Adam Smith, Ricardo, Mill, John B. Clark, Fisher, Fetter, Marshall, Böhm-Bawerk, Wieser, and others? When they say that static theory is not enough, I find myself in full accord. But if they propose to scrap static theory entirely, and substitute for the notion of the equilibrium of contemporary forces a purely genetic or historical method, I am unable to go with them. The contrast which they emphasize between two types of economic theory is significant. It has appeared again and again in the history of economic thought under various forms which do not always run on all fours. Typical of this contrast would be the following: statics vs. dynamics; the cross section view vs. the historical or genetic view; the theory of goods vs. the theory of prosperity; long-run vs. short-run laws; normal vs. transitional tendencies; temporal vs. logical priority; causation as a temporal sequence vs. causation as timeless logical relationships. The contrast, however presented, is fundamental. Neither term of the contrast, however, gives us a complete picture of the economic process. We must have a higher synthesis which will bring the terms of these contrasts into relation to one another if we are going to have a unified science of economics.[1]

No doubt the static analysis has been more fully worked out than have the dynamic tendencies. Probably more will be done in the next generation in the development of new dynamic theory than in the development of new static theory. I am convinced, however, that it is possible to generalize statics and to generalize dynamics in such a way as to make it possible for us to look at most problems from both points of view.

I venture to suggest, moreover, that the gentlemen who have presented the doctrines of the new school to us this afternoon are in fact good static theorists. They make use of the principles of the static analysis in their own work. I would refer here specially to Professor Clark's work on railway rates, though all three of the gentlemen have from time to time been guilty of this archaic mode of thinking! Professor Mitchell in his *Business Cycles* has largely dispensed with the static analysis, as the problems with which he was dealing lend themselves peculiarly to a different method. Professor Veblen has made

[1] I venture to refer to Chapter XXV of my *Value of Money* called "The Reconciliation of Statics and Dynamics" for an elaboration of this notion.

large use of the genetic method, but he has also, I think, employed static notions very freely, particularly in his *Theory of Business Enterprise.*

I think there would be little dissent from the proposition that the old historical method of the Germans, where exclusively pursued, has given us few new significant generalizations. Knies would be listed as one of the leaders of the German historical school, but his influence has been greatest through his book on *Geld und Kredit,* which is largely theoretical and in a considerable measure static.

In conclusion, let me urge that, whatever constructive program may be laid down by the new school, they do not take a negative attitude toward methods which they themselves prefer not to use. Men's minds differ greatly, and the tools of thought which are useful for one man may not be useful for another. The real test of methodology must be the product in causal theory which has fruitful application.

*Rejoinder* by J. M. Clark.—Professor Fetter claims that I do not understand static theory in that static theory emphasizes its own limitations. Nobody realizes more clearly than I do that as compared to theory which is unconsciously static, any theory which announces its static character takes a long step in the right direction. But a sign which announces: "This happy valley is not the whole world" does not take the place of explorations outside the happy valley, no matter how many exclamation points there are on the sign.

One of the speakers protests that we must not scrap static doctrines. Nobody has proposed to scrap static doctrines, and in my own paper I spent some time showing that, by the pragmatic standard which I am advocating, these doctrines have a large and important measure of truth, for certain limited purposes.

In reply to Professor Anderson's question as to what I am really driving at, I consider that I am continuing the work which my father undertook, of developing dynamic economics, but that we differ as to method. Instead of starting with static doctrines and modifying them to allow for dynamic elements, it seems to me necessary to start with the static premises and revise them. The change that results is well characterized in his own book, *The Philosophy of Wealth,* in a passage where he is speaking of the effect of introducing a correct "anthropology" (or psychology), and says that it is rather chemical than mechanical.[1]

[1] I should like with the editors' permission, to reply under "leave to print" to one point to which it seemed difficult to reply on the floor, because it concerned the character of my own writings. Professor Anderson says that

In connection with Professor Ogburn's paper, there has occurred to me a hypothesis which would support a different interpretation of the material he presents. Suppose that an underlying fighting instinct, or a race antipathy or for that matter even a carefully cultivated resentment, is in conflict with standards of conduct which condemn wanton attack. The suppressed and perhaps unconscious longing for a fight can only be rationalized if some motive for fear or hatred is discovered, and some such *casus belli* becomes a necessity. Economic rivalries will do (even though the stakes are absurdly small compared to the costs of the game) if their importance is magnified by vague phrases like "A Place in the Sun." In such a case means and end would be reversed when the people came to explain their action. "A good war justifies any cause." Is there not possibly a good deal of this in the psychology of those masses who support a war, as over against the relatively few who stand to gain directly and substantially?

Professor Hamilton and myself have not produced anything that gives a sample of the method we advocate sufficient to justify the stand we have taken. The criticism seems somewhat irrelevant. My claim is that the principles I have named are tools that workers in social economics actually use. I have found them at work in many books in practical subjects in many and varied forms. I have also found the disregard of them responsible, in one form or another, for a large part of the bad thinking on such subjects. As for my own articles which attempt to develop and use these principles, I know that Professor Anderson has read some of them, but I infer that they must have been among those very painful experiences which Professor Ogburn says we tend to forget.